

Business Deductions

Up-front Costs Contracts




The Ins and Outs of AUTO LEASING


TO lease or not to lease an auto? That is the question increasingly asked by legal-assistance clients. Although it's not a "legal" question, it has legal implications with potentially unfavorable results for military members and their families.

Seductive and entertaining television commercials, posters and magazine ads entice people to lease automobiles without taking into consideration some major drawbacks, many of which affect military members and their families. Whether leasing an automobile is right for you depends on many factors, including your lifestyle, finances, duty assignments, tax obligations, personal preferences and future goals.


Think Before You Ink!


Leasing differs from buying in many ways that may affect soldiers:


 **Ownership.** You do not own the vehicle. You get to use it but must return it unless you choose to buy it at the end of the lease term. This also means you have nothing to show for the monthly payments at the end of the lease term.


 **Up-front costs.** These may include the first month's payment, a refundable security deposit,

taxes, registration, insurance premiums, and other fees or charges.


 **Monthly payments.** Many people are attracted to leases because their payments are lower than if they had a loan. This is because they are actually paying rent charges plus costs for the vehicle's depreciation during the lease term. Payments on a purchased auto cover the entire sales price plus interest and other charges.

 **Early termination charges.** If you lease, you are responsible for additional charges for ending the lease early.

 **Mileage.** Most leases limit the number of miles you may drive to fewer than 15,000 per year. You may be able to negotiate a higher mileage limit by paying a higher monthly payment. Exceeding the mileage limits normally results in additional charges unless you purchase the vehicle at the end of the lease period.

 **Personal-property taxes.** If a car is registered in a state that has personal-property taxes, these fees are normally an additional cost beyond the lease charges. The Soldiers' and Sailors' Civil Relief Act does not exempt soldiers from this local taxation, because they don't own the automobile. (See page 30 of Soldiers' May issue, "The Legal Side of Car Buying," under "Taxes," for an explanation of military members' immunity from these taxes afforded by the SSCRA.)

Another tax matter to consider is that since a leased vehicle is usually a new vehicle, the annual property taxes will be in the highest tax rate.

 **Permanent change of station.** Auto-lease contracts normally restrict the relocation of vehicles to another state or country. Accordingly, if soldiers are reassigned before their leases expire, they may have to pay early termination fees, agree to purchase the cars

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from the leaseholders, or take other actions that will satisfy the terms of the contracts.

If the contract does permit relocation or shipment overseas, under most circumstances the lessee still must get written authorization with specific acknowledgment that if the company wants the vehicle returned to the continental United States prior to the normal return PCS, the U.S. government will not be liable for the shipment.



Business deduction. Leased vehicles often serve as a business tax deduction in computing federal income tax returns for persons who must use the vehicles in certain occupations (salesmen, physicians, etc.). However, military members do not normally qualify for this tax deduction, which is another factor to consider if income-tax savings are an objective.



Death of Lessee. When a husband and wife have a joint lease on a vehicle, the death of one spouse does not normally terminate the lease, even though the spouse has no need for the vehicle.

This continued liability for a vehicle's entire lease costs may further exacerbate the financial hardship created by the loss of the deceased spouse's income.

Still Don't Know Whether to Buy or Lease?

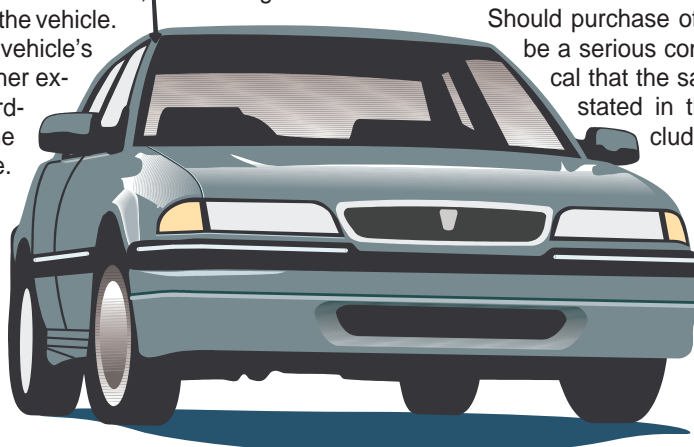
The ultimate decision must rest on each individual's personal situation. The monthly costs of leasing a vehicle can be weighed against the monthly purchase costs, and whether you have a car, or not, at the end of the lease period.

If you purchase a vehicle every few years, drive fewer than 12,000 miles a year and keep your cars in good running condition, leasing may be a good choice.

If you intend to keep the vehicle for several years, drive long distances or take the vehicle off-road, such as to firing ranges and training sites, ownership may be your best choice. And if you live in a state where personal property taxes may be a factor, buying a car and having it titled in the service member's name alone may be a better decision.

Most leasing agreements provide an option to purchase the leased vehicle at the end of the lease period.

Should purchase of the leased vehicle be a serious consideration, it's critical that the sales price be clearly stated in the contract to preclude future disputes. □



Help From the Internet

The Internet has several sites to help you decide whether to buy or lease a vehicle, and to determine how much it may cost to insure and maintain it.

www.choosetosave.org is a consumer-education program sponsored by the American Savings Education Council and the Employee Benefit Research Institute. While this site focuses on savings and retirement planning, it also offers several calculators to help with buying and leasing decisions.

www.financiallearning.com is sponsored by General Electric, which requires you to register at the site but states that their mission is to promote financial literacy. GE also sells financial products.



www.edmunds.com provides calculators for making your buy-lease decisions, plus resources for evaluating and buying both new and used cars, and selling your current vehicle.

Other informative sites include **www.intellichoice.com** for dealer and financing information; **www.about.com**, which is a starting point for sites offering information on a variety of consumer subjects; and **www.leaseguide.com**, which gives detailed information on how leases work and how to negotiate your best deal.

Many of the ".com" sites have corporate sponsors or accept advertising, so be prepared to wade through some distracting windows to reach the information you're after.